

SUSTAINABLE GROWTH OF CLOVER'S PREMIUM PRODUCT PORTFOLIO IN SOUTH AFRICA'S LOWER INCOME MARKET SEGMENTS

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ABSTRACT

Clover Industries Limited has a long and successful history in South Africa whilst playing a definitive role in the development of the local dairy and FMCG industries (Clover, 2017b). The organisation has been a household name in South Africa for over 100 years with roots stemming as far back as 1898. On the 14th of December 2010, Clover enlisted on the main board of the Johannesburg Stock Exchange (JSE) and continues to be a leading player in the South African dairy market (Marketline, 2017a). This article explores business strategies and provides insight into the sustainable growth potential of Clover Industries premium beverage portfolio within the LSM 1–6 segments aligning with the organisations growth aspirations. The justification for this article is based on the paradoxical nature of the LSM 1–6 segment that has income constraints, aspirational attributes and brand attraction. The objective of this article is to provide insight into the key factors affecting consumer purchasing habits in this segment of the market. A cross-industry analysis provides insight into innovative trends and developments. The themes identified in this article have been categorised and have helped provide clarity on the existing gaps in literature. There are specific factors that influence how business can be carried out responsibly within the LSM 1–6 segments without having an undertone of being exploitive. There are trends that have emerged which profile the typical LSM 1–6 consumer and businesses need to understand their specific needs and behaviour and be cognisant of this. The conclusions and recommendations that have been distilled, were derived from interviews with SME's (Subject Matter Experts). This then provided the foundation for research questionnaires that were administered in the identified high LSM 1 – 6 density areas in KwaZulu-Natal, Gauteng and the Eastern Cape. Key concepts have emerged and created opportunities of future research which will contribute positively to the body of knowledge.

1. INTRODUCTION

The global soft drinks market growth is expected to reach a compounded annual growth rate (CAGR) of 5.62% for the period 2017 – 2021 (Newswire, 2017). Exceeding this global forecast, industry estimates expect the South African soft drinks market to grow at 13.1% (CAGR) during 2015 –2020 (Marketline, 2016a). Therefore, there is global interest in the African market due to the expected growth which exceeds the global forecast (Jernigan & Babor, 2015). ABInBev recently acquired SABMiller, in a deal that was termed, "Megabrew", which saw the merger of the world's two largest Brewers. The global market research company, Mintel, suggested that the underlying reason for the deal was due to SABMiller's footprint in Africa. According to research from Deutsche Bank, 40% of the expected profit growth over the coming decade will be from Sub-Saharan Africa (Guest, 2015). An increase in both population and income in Africa have resulted in rapid urbanization making Africa an attractive target market for global businesses (Jernigan & Babor, 2015).

South Africa has recently become the largest economy in Africa, surpassing rival Nigeria (Marketline, 2017b). The South African Audience Research Foundation (SAARF) introduced the Living Standards Measure (LSM) as a marketing research tool in South Africa. This index helps group people by defined living standards, using criteria that cuts across conventional groupings such as race, and instead evaluates specific criteria such as the level of urbanisation and ownership of motor vehicles and appliances. According to (SAARF, 2014) the majority (63%) of SA consumers are in the base of pyramid economic category with 23% at the lowest level of the lifestyles measure index, LSM 1-4 and 40% in the LSM group 5-6.

Jernigan & Babor (2015) highlighted that rising populations and income have resulted in a rapid rate of urbanization, making Africa very attractive to the global beverage industry. Industry leaders have identified Africa as a key area for growth (Jernigan & Babor, 2015). Like the roots that SABMiller established in Southern Africa within the Beer Industry prior to the merger with brewing giant ABInBev, Clover has an enviable reputation and history in the Dairy Industry. The organisation has shown its intent to be taken seriously not just as a dairy company, but rather a consumer-packaged goods company with a soft drinks portfolio. The brand strength and heritage make Clover well perched to succeed in this sought-after region. International giants are competing to succeed for a share of wallet in this new growth battlefield.

2. SOCIO-ECONOMIC BACKGROUND

'Bottom of Pyramid'(BoP) is a concept that refers to the world's poorest yet largest socio-economic group (Chipp, Corder & Kapelianis, 2012). Whilst poverty significantly influences this segment of the population, these consumers are becoming an increasingly attractive target market. Chipp et al. (2012) argue that the existing literature portrays BoP consumers as individuals who live in a social vacuum. Contrary to this, Chipp et al's (2012) study draws upon the cultural dimensions literature and takes an innovative approach by adopting a collectivist perspective as opposed to an atomised view of consumers to describe the South African BoP. According to Gupta & Jaiswal (2013) there has been pioneering research done on the BoP population by Prahalad & Hart (2002), who stressed that marketing to the world's poor is a viable option for companies to generate profit. The overriding assumption that supports this theory of the BoP marketing proposition has been that the poor are consumers who make purchasing decisions just as consumers who fall into the higher tiers in the LSM pyramid (Prahalad & Hart, 2002). Gupta & Jaiswal (2013) highlights that the BoP proposition has been widely criticised and could be perceived as exploitative or unethical in nature because the poor are being viewed as vulnerable and can fall victim to unscrupulous marketplace business practices.

Post-apartheid South Africa exposed the repercussions of the previous oppressive regime. The racial segregation that was entrenched by this discriminatory system, proved to be a fertile ground to breed inequality and poverty. Whilst significant transformation processes were implemented by the democratically elected government, inequality still exists with the top 10% of the population accounting for almost 58% of the country's income (Nanziri, 2016). Policy changes, such as AA(Affirmative Action) and BBBEE (Broad Based Black Economic Empowerment) to undo the injustices of the past have not had the desired rectification effect (Nanziri, 2016). The banking sector defines middle class as those with an income of R49 001 to R783 000 per annum (Ryan, 2016). Whilst the white population still account for more than half of the affluent income group(> R783k per annum), their black counterparts now make up between 23% – 28% of this affluent group (Ryan, 2016).

Gross Domestic Product (GDP) is a flawed but commonly used indicator in measuring economic welfare (Jones & Klenow, 2015). Key influencers such as crime, leisure, inequality, mortality and the natural environment which affect living standards are not incorporated into this measure. These influencers have varying degrees of impact across the LSM segments and are a crucial consideration when evaluating economic welfare at the Bottom of Pyramid (BoP). In light of this, there is a push to coerce countries to develop realistic measures of economic welfare under the rubric 'Beyond GDP Measures' that will complement the existing GDP measures (Mushongera, 2017). The measurement of developmental progress has largely relied on the use of the GDP measure. Recent events such as the global financial crisis have shown that an overreliance on GDP as a measure of economic development can be misleading (Daly & Posner, 2011). In response to this, the Gauteng City-Region Observatory (GCRO) has developed a tool called the Socio-Economic Barometer for assessing developmental progress. The Barometer comprises 38 indicators across key sectors of the socio-economy and provides crucial insight for this article, due to the high density of LSM 1–6 in the Gauteng region. The Barometer does not try to show relationship and dependencies of the different measures but looks at the outcome for each indicator and each sector. To provide perspective, 3 base years (2002, 2007, and 2011) were used to benchmark progress up to the latest year (2012). The variables were assumed to carry equal weighting and an index was generated for each of the 38 indicators across the entire period.

3. MACRO ENVIRONMENT

South Africa has been described as having a dualistic socioeconomic structure whilst being spatially and legally divided by formal and informal contexts (May & Meth, 2007). Having recently being declared the largest economy on the continent, South Africa now surpasses rival Nigeria according to the latest 2017 review (Marketline, 2017b). Characterised by an expanding, sizeable middle class and large, vibrant teenage market, the country is experiencing rapid urbanisation with a movement of the population from rural areas to urban metros. As seen in first world countries, South Africa's growth ambitions are not immune to local and global influences such as political uncertainty and fluctuating oil prices. The mining industry for instance, is a critical contributor to the South African economy, generating vital export income (Marketline, 2016a). The recent drop in production of mining and quarrying of minerals has been attributed to several factors, including prolonged strikes, which has consequently become the main contributor to the short term decrease in economic activity. To some extent, a recovery in commodities has been seen in 2017, however it is the BRICS countries' over-reliance on this industry that poses a problem for GDP as a whole (Marketline, 2017c).

The anticipated slowdown of the CAGR in the local Beverage Industry will partly be due to increasing market maturity, but mainly attributable to rising health awareness among South Africans. In particular, better education about the risk factors associated with obesity and diabetes is likely to encourage more middle and higher income consumers to switch from carbonates to healthy alternatives like fruit/vegetable juice and bottled water (Marketline, 2016b).

The global sentiment regarding the obesity epidemic and its associated chronic diseases, have put significant pressure on government to introduce a Health Promotion Levy, commonly known as the “Sugar Tax” locally. Scholars and academics from around the world have added their voices to the call for a “Sugar Tax” in South Africa stating that the science is clear; excess sugar consumption is a major contributor to obesity and its related diseases (Anon, 2016). Parties in industry however, argue that the knock-on effect of imposing such taxes will reduce SSB (Sugar Sweetened Beverage) consumption and could subsequently lead to job losses, thereby damaging the economy as a whole (Green, 2016). This viewpoint is counter argued by (Stacey, Tugendhaft & Hofman, 2017), highlighting that there is sufficient price elasticity in sugary beverages to have a significant reduction in consumption by imposing the “Sugar Tax”. Stacey et.al. (2017), further argue that the impact of the obesity epidemic places a significant strain on the public and private healthcare system and need to be considered when assessing the impact on the South African economy.

Recently academics have questioned the efficacy of such tax legislations in South Africa. Alcohol and tobacco abuse for example, is widespread and has reached concerning levels in poor households. However, even with tough “sin tax” measures, tobacco and alcohol abuse continue to rise. The unintended consequences of such legislation have adversely affected households in which an egoistic head, addicted to alcohol and/or tobacco controls the household budget. It is argued that these “sin tax” hikes have affected the welfare of household members, other than the head, due to the re-allocation of the household budget to fund addictive behaviours (Black & Mohamed, 2006). Whilst the “sin tax” may have been relatively successful with increased prices and consequently reducing tobacco consumption in South Africa, this approach does have drawbacks, particularly in the domain of rapidly growing low and medium income consumers. An affordability benchmark offers a suitable alternative that would be more effective in reducing tobacco consumption in the future (Blecher, 2010). Blecher (2010) argues that an affordability-based benchmark using relative income price (RIP) as a measure of affordability based on the percentage of annual per capita GDP required to purchase 100 packs of cigarettes.

4. THE CUSTOMER

The customer, for this article, refers to the Spaza shops, retailers, distributors and similar micro-enterprises that purchase from Clover for resale to the consumer. In this area of exploration, there are new variables at play, forcing manufacturers to think differently about how the local and traditional (L&T) markets, for the LSM 1–6 segments, are serviced. Over the last few decades in South Africa, Spaza Shops have played an important role in the township economy, specifically amongst economically marginalised communities (Bear et al., 2005). However, instability displayed by locally-owned Spaza Shops or micro-enterprises, have led to foreign entrepreneurs realizing an opportunity for competition in the township economy. The fertile business ground provided by South Africa’s democracy since 1994 has increased competition between South African operators and foreign-owned businesses (Liedeman, 2013). The platform created by the South African Government however, favours local entrepreneurship in this competition for a share of wallet. Government has supported the local entrepreneurs by enabling key legislation. Foreign traders by contrast, have introduced new methods of bulk buying into the economy and are effectively bringing to the fore a cash-based pool. Their strategy of collectively pooling cash from many small outlets affords them greater buying power and consequently, better negotiating power pertaining to discounts on bulk quantity purchases.

South Africa was rocked by attacks on foreign-owned Spazas’ in 2008. The attacks started in Diepsloot township, but rapidly spread to townships like Alexandra. However, these were not xenophobic attacks, but criminal acts, where unemployed youth took advantage of the anger towards a foreign-shop owner, resulting in mass looting and theft. This also raised the issue of why foreigner-owned Spaza shops were more successful than those of locals (Ndweni, 2015). It is pointed out that local business people often seem to find fault with these foreign-owned Spazas, as a result of them selling goods at cheaper rates, but that there is no magic to why foreign traders seem to be selling goods at lower rates compared to local Spazas (Ndweni, 2015). The aforementioned, is a typical marketing strategy where businesses sell certain items at a very low price to attract foot traffic into stores and make money on the sale of additional items with higher margins. These low-price items are known as “loss leaders”. Spaza shops or residential micro-enterprises have seen organic growth, serving the immediate local resident consumer demands, primarily for essential groceries, fast food, airtime and liquor (Charman et al., 2017). Key observations from current research revealed the dominant role played by women in many of these home-based businesses as well as the rise of foreign nationals whose businesses are strategically positioned to penetrate established markets (Charman et al., 2017).

According to Liedeman (2013) a differentiator between the Somali and South African business models is the use social and business networks. Foreign-owned businesses are highly networked and dependent upon ‘trust’. By contrast, South African operators have a mistrust of all non-family members involved in their Spaza business. Liedeman (2013) further emphasises that locally-owned businesses try not to involve anyone outside the family unit and are consequently unable to

forge additional business ties and larger networks. This has led to South African Spaza operators limiting themselves from building stronger business and social networks as a 'sense of trust' is lacking in their micro-enterprise.

Charman, Petersen & Piper (2012) define 3 key focus areas for success in the Township Economy:

- Access to larger labour networks - individuals are recruited through some sort of relationship, where both employment seekers and employers use 'social capital' as part of the recruitment process;
- Access to business capital through investment networks - new entrants to the Spaza trade can raise the money needed via investment networks, to create new Spaza opportunities. Somalis operators indicated borrowing money, leveraged through 'social capital' from networks such as family and friends. Such transactions usually tie the parties together through a verbal agreement and business partnership (Liedeman, 2013). Locally-owned micro-enterprises, by contrast, have little or no access to 'social capital' in their communities and struggle to raise the large investments to start Spaza business; and
- Access to stock procurement and distribution networks – The strength of 'purchasing networks' lies in the ability to access credit facilities from formal wholesale suppliers. According to a study by Liedeman (2013) Somali business owners indicated splitting the cost of stock within their business partnerships, and in some cases, also with other Somali operators who were not necessarily partners in their Spaza shops. This was a strategy employed to leverage the benefit of discounted prices at times of the month and from suppliers.

5. THE BEVERAGE INDUSTRY

Food and Beverage consumption patterns in South Africa have seen significant changes over the past few decades and will continue to do so due to global influences. Numerous studies conducted over the last few decades indicate that food consumption patterns locally can be attributed to a more Western-influenced diet, with notable nutritional consequences contributing to increased obesity and other non-communicable diseases. According to a recent research article by the South African Journal of Science, the convenience, perceived health and nutrition, and indulgence were the main factors driving the increased consumption of packaged foods and beverages. These shifts in food consumption are alarming due to the fat, sugar and salt composition and potential impact on the public health system (Ronquest-Ross, Vink & Sigge, 2015). Numerous studies suggest that South Africans are increasing their soft drinks consumption. Soft drinks were second to fruit drinks, as the most popularly purchased street food item. A recent US study found that an increased sugar intake from sugar-sweetened soft drinks (SSD's) can be associated with an increase in cardiovascular disease mortality and recommended that calorie intake from added sugar be limited (Ronquest-Ross, Vink & Sigge, 2015).

Total soft drink consumption in South Africa, increased by a considerable 68.9% from 55 L per capita/year in 1999 to 92.9 L per capita/year in 2012, with all the soft drink categories showing significant growth. Bottled water has shown substantial global growth and consumption continues to increase, even in countries with safe potable tap water being available. There are several factors influencing this consumer trend, such as inconsistency with tap water taste, demographics, perceived quality and safety of the water source, branding and marketing influences and overall convenience. Similar to the rest of the world, bottled water consumption in South Africa has experienced exponential growth of 315% from 1999 to contribute 8.3 L per capita/year in 2012 (Euromonitor International, 2013). The LSM population distribution in Mexico closely resembles that of South Africa. However, according to Rajballi (2014) the consumption habits evident in Mexico, reflect a more even distribution across LSM's with a significantly higher per capita consumption when compared to South Africa. An analysis of the two markets with similar economic indicators highlighted several differences in the marketing execution strategies. Rajballi (2014) further illustrated that the most significant difference was the number of outlets with coolers that serviced the population in an area.

Research conducted in Manipal, India, further emphasize the influence that visibility and availability have on soft drinks consumption. Their study also reinforces the perspective, that consumers in the lower LSM's still seek quality products with the brand being the key influencer in the consumers' choice of soft drink (Baranwl, Dangi & Singh, 2010). This concept of increased visibility and availability has been adopted by ABI as a learning experience from their Coca Cola counterparts in Mexico (Rajballi, 2014). A healthy diet throughout the course of life has been proven to help prevent malnutrition as well as a range of non-communicable diseases and conditions. However, a recent increase in demand for processed food, rapid urbanization and changing lifestyles has led to a shift in dietary patterns. People are now consuming significantly more foods that are high in energy, fats, free sugars or salt/sodium (World Health Organisation, 2015). In the US, policy makers are paying attention to the global concerns around health awareness. In 2014, the US Food and Drug Administration rolled out the first major update to the American's Nutrition Facts labels in more than two decades. The finalized rules were published in 2017 and for the first time include information on added sugars (Thompson, 2017).

A combination of lifestyle changes has occurred over the last few decades, resulting in an imbalance of energy intake when compared to energy expenditure. This has ultimately has led to overweight and obesity (Storey, 2010). Storey (2010) further emphasises that food supply trends indicate total daily calories available per capita have increased 28% since 1970.

Whilst some have suggested that intake of beverages have had a major impact on obesity, data collected by the Beverage Marketing Corporation between the period, 1988–2008 demonstrate that, in contrast, fewer calories per ounce are being produced by the beverage industry. Storey (2010) argues that data from the National Cancer Institute have shown soft drink intake to represent 5.5% of daily calories. Whilst the percentage of available energy from added fats has increased by 35%, the percentage of available energy from added sugars declined 11%. According to the Food and Drinks Report 2017, Public Health England is tackling the health epidemic by challenging businesses to cut sugar by 5% in 2017, progressing to 20% by 2020 and is revising sugar labelling to make the contents clearer to consumers (Thompson, 2017). The introduction of the Health Promotion Levy (Sugar Tax) by the South African Government was because of the growing global sentiment regarding obesity and its associated chronic diseases linked to the consumption of SSD's.

Global beverage giant The Coca Cola Company, have embraced the added sugar guidelines, from the World Health Organisation, for a 10% limit of total calorie intake be day (The Coca Cola Company, 2017). The Coca Cola Company adds further choice to the consumer, by analysing the opportunities in a 24 hour cycle, and defines the different consumption occasions throughout the day (The Coca Cola Company, 2017). The intention is to have a product offering for any occasion that a consumer is faced with. With the popularity of "Healthonism" growing globally, consumers are seeking natural, wholesome food and drinks at every turn. This is prompting categories traditionally associated with indulgence, such as alcohol, ice cream and confectionery, to incorporate holistic health and wellness into their products, without compromising on flavour (Thompson, 2017).

6. DISRUPTIVE INNOVATIONS AND CROSS-INDUSTRY TRENDS

In the coffee industry, the norm has been to harvest coffee beans and to discard the coffee fruit, which were deemed to be waste. An understanding of the antioxidant power of this fruit, offered Bai Brands an opportunity to harness this into an edible commodity (Jacobsen, 2015). According to Chief Executive Officer, and Founder of Bai Brands, Ben Weiss, personal health benefits are just a part of their mission (Jacobsen, 2015). Weiss says, "Eliminating waste wherever possible is the duty of every person on this planet; as is helping your neighbours achieve a better life." When traditional coffee-harvesting methods are used, the discarded fruit lands up in the plantation waterways. The rotting coffee fruit pollute surrounding streams with a build-up of ochratoxins, aflatoxins and caffeine. Processing this composted material into a consumable product, has allowed Bai Brands to help keep the waterways clean and the ecosystem in balance, whilst generating a new revenue stream for local farmers. Weiss continues to highlight that there is a cultural shift within the beverage industry of an unprecedented magnitude and will change the course of beverage for generations to come (Jacobsen, 2015).

Smart packaging is often considered somewhat of a buzzword within the Consumer-Packaged Goods (CPG) world and has seen an increased rollout in recent years. Intelligent packaging focuses on the consumer and can communicate information to the user. Information such as the state of the product can be conveyed using thermo-chromatic ink for example. Thermo-chromic ink is temperature dependant and changes according to the temperature of the product inside the bottle or can. This has seen great success with alcoholic beverages that are best enjoyed ice-cold as the bottle can convey to the consumer whether the drink is the optimum temperature to consume (Smart Packaging, 2014). An example of thermo-chromic ink application is on the 'cold activated bottles and cans' of popular American lager Coors Light, where the Coors mountain logo changes colour depending on the beer's temperature. Swiss-based packaging manufacturer, Tetra Pak continue to invest significant funds in solutions to ensure product integrity by developing innovative solutions, announcing in 2012 that it had developed a smart milk carton in partnership with a Brazilian food co-operative, Aurora. The milk carton contains a label with a QR code that, when scanned by a smartphone, reveals which cow on which farm produced that milk (Smart Packaging, 2014). Although many of these technologies have not yet gone mainstream, it highlights that the packaging industry's key role players are embracing smart technologies and continuing to invest in the future.

Smart packaging also plays a key role in food safety due to the potential risk, as well as stringent legislation. In December 2010, the Food Safety Modernization Act (FSMA) was passed by the US Congress. The Washington Post described the Act as "the first major overhaul of food laws since 1938" (Smart Packaging, 2014). This legislation changed the Food and Drug Administration's (FDA) approach to food safety from a reactive mode that responded to outbreaks, to a proactive approach focusing on prevention. Keep-it Technologies, a Norwegian-based company, have developed a more innovative/intelligent device that measures more accurately the freshness of food products as they pass through from factory to consumer. The shelf-life indicator for instance has been used by McDonald's since 2007 to assess the shelf-life of salads and onions and allows them to assess their handling procedures throughout the cold chain, from supplier to the restaurants. Keep-it's Shelf-Life Indicator uses a small self-adhesive label containing a range of non-toxic chemicals that respond to environmental changes and time and change accordingly. The start of the chemical reaction is triggered at the end of the packaging line of the food manufacturer and follows each leg of the supply chain stages from production to the consumer. This reaction displays the time left before expiration of that product and most importantly, is an actual indication of the degree of degradation of the food item, graphically represented.

There are significant advantages to innovations such as this as it allows for a use-by, best before, or sell by date that is representative of degradation that a specific product has been exposed to. This could differ between two products from the

same batch and is therefore a more accurate representation of exposure as opposed to a predicted degradation. The opportunity to reduce wastage can greatly assist in alleviating famine in a world where 850 million people lack the food necessary to live a healthy active life World Food Program (Newswire, 2015). Keep-it Technologies innovative Shelf-Life Indicator was designed with this challenge in mind and its success is testament to the company's vision in taking the guesswork out of expiry dates (Smart Packaging, 2014).

7. CORPORATE PERSPECTIVE

Qualitative interviews with key stakeholders and SME's from Clover provided the following key insights:

60% of interviewees concurred that whilst there are aspirational attributes associated with LSM 1-6, consumers in this segment are price conscious buyers who are under immense cost pressures. Internal market research indicated that the targeted LSM did not show an affinity to the health-conscious alternatives. Deliberate efforts have been made to sell directly to the Spaza store owners which helped to bring the products closer to the consumer. Relationships with the Spaza store owners were further cemented by Clover offering fridges to the owners which were maintained by Clover. Whilst there is a drive to have Clover-branded fridges which display the full beverage portfolio, the Clover efforts were overwhelmed by the scale of presence of Coca Cola Beverages Africa at most outlets.

Clover has kept pricing consistent over the last two years and have managed to absorb inflationary costs into the operations and initiated several costs saving drives. One of these drives was an exercise of decreasing pack sizes and consequently volumes. This has also contributed to the flat cost structure that has been noted. This however has not gone unnoticed as consumers have been vocal in their complaints.

Research & Development(R&D) spend considerable time and money on developing lower cost options for the LSM 1–6 such as Numel. Whilst this is a new product targeted at the lower LSM's, participants still felt that there were no suitable options from the Clover range that was affordable and nutritional for the lowest LSM. The legislative pressure from government to reduce the sugar content in beverages has been embraced by Clover in their operations. R&D teams have reduced the sugar content of the traditional brands as well as introduced new sugar free formulations. Participants indicated that whilst there is a global outcry for sugar reduction in beverages, the awareness locally has not translated into a change in consumer purchasing habits. Consumers are aware of the growing health concerns related to elevated sugar consumption, but this has not translated to an increase in consumption of the healthier alternative drinks in the market. Participants felt that the brand was well positioned due to its heritage and corporate social investments in the communities. The supported communities are typically a dense LSM 1–4 population.

8. CONSUMER PERSPECTIVE

A qualitative analysis was achieved by administering a research questionnaire in the targeted LSM 1 – 6 areas in Gauteng, KwaZulu-Natal and the Eastern Cape. The following themes have emerged:

Most respondents, 31.3%, indicated a typical consumption frequency of more than two times a day whilst 29% indicated a consumption frequency of between 2–5 times a week. Most of the respondents indicated that their channel for purchasing is via supermarkets at 54%, whilst a further 26% indicated that they made their purchases at their local Spaza shop. The two most significant occasions for the purchase of soft drinks stemmed either from “Paired with a meal” or “During Family Time”, at 45.3% and 32.3% respectively. Carbonated drinks are still the most preferred consumer soft drink category at 61.7%.

The juice category represents the second position in the consumer preference feedback with 55% of respondents indicating this choice. The Iced Tea category is the third most preferred consumer soft drink with respondents showing no brand preference in this category. Respondents in this LSM indicated Energy Drinks to be their second least favourite soft drink choice. Water as a soft drink of choice, makes up the respondents' least favourite soft drink option. Coca Cola is the favourite soft drink brand with 53% of respondents indicating this brand as their first choice. Sprite in the second most popular brand for this LSM with 49% of the respondents indicating their preference for this carbonated soft drink. Tropika is the only non-carbonated soft drink to be in the top three favourite brands chosen by the respondents. 37.7% of the consumers that were surveyed has selected this brand as one of the top three.

There are two key factors that influence the purchasing decision process of the consumer. 59% of respondents indicated that taste is their main reason of choice, whilst a further 37% indicated that healthy alternatives were the key factor influencing their purchase. Price is a significant contributor to the decision-making process, when purchasing soft drinks. 83.7% of respondents categorised Price as considered “Very Important”. Respondents indicated that “Flavour” was the key factor that would make them more likely to buy a Clover soft drink. 76.3% indicated such, whilst a further 16% selected Price as a likely reason to buy a Clover soft drink. Most of respondents, at 40.5%, have indicated that they did not choose the Clover branded soft drinks due to price. A further 22.3% indicated an unwillingness to pay for the perceived premium price, whilst 20.6% indicated that they were satisfied with competitor brands. The overall feedback from respondents was positive with no scores below 3. At the highest end of this Likert Scale, 21% indicated that they were “Extremely Likely” to recommend the Clover products to friends.

9. PRODUCT PERPECTIVE

A total of 95.7% of the respondents indicated that the Clover products were perceived to be “High” or “Very High”. When asked about the Clover products quality when compared to their competitors, 95.3% approved of the Clover portfolio, indicating that it was considered “Quite a bit better” or “Somewhat better” than competing brands. The challenge for the Clover brand is the perceived higher pricing of the Clover products when compared to competitor brands. 90.7% indicated that the products were “Quite a bit higher” or “Somewhat higher” when compared to their competitors.

10. FACTORS INFLUENCING CONSUMERS TO SWITCH BETWEEN DIFFERENT BEVERAGE BRANDS

An analysis of the questionnaire feedback indicated that the consumer was making purchasing decisions based on either a personal taste preference or the perceived healthier alternatives in the market. Whilst “Flavour” was deemed to be a factor that would influence the consumer to switch brands, 83.7% indicated that “Price” was a “Very Important” consideration for the consumer, in the decision-making process. Globally there is an increasing consumer awareness pertaining to obesity and the associated chronic illnesses (Storey, 2010). Whilst academics have added their voice to the global outcry for sugar reduction, South Africa has implemented new regulations, in the form of the “Sugar Tax” (Anon, 2016). Contrary to this, the data available from the SME interviews suggested that, whilst there is an awareness of the “healthy alternatives”, this did not translate to the actual consumer purchasing trends that were being monitored.

11. FACTORS INFLUENCING CONSUMERS TO SWITCH FROM MAINSTREAM TO PREMIUM CLASSES

Respondents in this segment indicated that they found Clover products to be of a “High” or “Very High” perceived quality. 95.7% of the respondents had a favourable perception of the Clover portfolio’s quality. 40.5% indicated that the products were unaffordable whilst a further 22.3% indicated an unwillingness to pay for the premium. Only 20.6% indicated that they were satisfied with competitor products. This provides critical insight into a key factor that would influence consumers to switch from mainstream brands to the perceived premium offerings from Clover. Price is therefore a tipping point for consumers who would prefer the quality of the Clover products but are seeking value as well.

12. PRICING STRATEGIES AND VALUE PROPOSITIONS

The Food and Beverage Industry in South Africa is under immense cost pressures with consumers price-consciousness increasing. Given this background, further complexities have arisen with increased needs for safety standards, quality compliance and legislative requirements being imposed on manufacturing facilities. This has created opposing pulling forces, with the consumer and the manufacturer at the centre. Food quality has received increased focus due to the listeriosis outbreak that was experienced in the industry (Kaye, 2018). This therefore demands more stringent hygienic requirements with consistent quality control measures being implemented. As was the norm in the past, additional operational and inflationary costs can no longer merely be passed on to the consumer. The pressure is therefore on the manufacturers to absorb both the increased legal and regulatory requirements and their associated costs, whilst generating value to the consumer. From the SME interviews, it is evident that a deliberate drive is in place by Clover Industries to keep operational costs down and has subsequently not had a price increase for two and a half years. Whilst this is what is required to attract consumers, the perception is still that the Clover products are priced too high. The key finding here is that there needs to be value offered to the customer and will be explored further in the recommendations pertaining to new products or stock keeping units (SKU’s).

13. ACCEPTABILITY OF PREMIUM BRANDS OUTSIDE OF LSM 8 – 10

According to Farlane (2018) the retail group Woolworths, focuses primarily on the LSM 8–10 group. There is a correlation between the perceived premium offerings and their target LSM. In contrast to this, feedback from the SME interviews with Clover stakeholders revealed that their target market was LSM 1–7 with no niche products in their portfolio. Whilst the Clover group develops their products to target these lower LSM’s, the perceived quality of their products is of a “High” or “Very High” standard like the perceived quality of the products from the Woolworths range. The consumer feedback from the research questionnaire indicates that the consumers not only accept but prefer Clover’s products due to their perceived quality. There is however a threshold up to which they are willing to pay for the added brand quality. Consumers are willing to recommend the Clover brand to family and friends but are concerned about the pricing of the products with 83.7% indicating that price is a major contributor to the decision-making process when purchasing.

14. CHANNEL FLOW OF PREMIUM SOFT DRINK BRANDS

The township economy, and its significance in the South African context, has been likened to that of a country having a “dual” economy. To succeed in this rapidly growing sector of the economy, the South African economy as a whole needs to be contextualised, rather than viewed as a dualistic one, due to people who constantly crossing these divides in making a living (Callebert, 2014). Clover Industries have taken an active approach to working in the township economy and have partnered with both local and foreign owned Spaza shops by providing them with branded fridges. This channel is typically associated with purchases that are made for the immediate consumption(IC) occasion. This IC occasion accounts for 45.3% of the consumer shopping occasions and is usually purchased “When pairing with a meal”.

McGaffin & Gavera (2011) have indicated that there has been an influx of retailers and retail centres in the sector defined as “Emerging Economies”. Consumers living in these emerging economy areas now have access to major retail outlets. Clover Industries have a presence in these channels as well and are therefore well positioned for the second most popular shopping occasion, “During family time”. This shopping occasion is categorised for future consumption (FC) and the typical SKU (Stock Keeping Units) purchased during this occasion differs from the IC occasion. Two distinct channel streams have been identified. These two streams are also categorised by different shopping occasions, which then infer a different SKU or product requirement for each.

15. RECOMMENDATIONS FOR MANAGEMENT

15.1 Mobile campaign strategy

According to Rajballi (2014) the consumer landscape has changed significantly since the introduction of prepaid airtime. Competing for a share of wallet, the traditional staples such as bread and milk have often fallen victim to the demand for prepaid airtime. This disruptive innovation has impacted consumer purchasing habits and redefined priority purchases. This provides a platform to introduce targeted mobile campaigns. Fulgoni (2014) has emphasised that mobile technology is defined as a linchpin across industries. Mobile technology can deliver targeted communication with digital advertisements and incentives directly to consumers eliminating organisational channel and platform silos. Incentives can be redeemed in-store and help build a database of the consumer and enhances the understanding of consumer behaviour. Mobile campaigns are relatively easy to implement and can be designed to be cost effective and are highly effective in building top of mind brand awareness. Considering the emerging middle class and the BoP concept, mobile technologies are now more readily accessible. In this way the consumer landscape has changed significantly. This is quite noticeable in other industries such as banking that have adopted digital technologies in line with mobile campaigns. An example of this is mobile banking and the use of online banking services.

15.2 Product pairing

Meal time pairing is a strategy that has been employed by ABI (Rajballi, 2014). This was noted by the researcher at many of the Spaza stores as was ABI-branded promotions. Offerings included meal combinations such as a quarter chicken, half a loaf of bread and a 500 ml coke for R30. This has been a successful implementation by ABI and a similar offering can be adopted by Clover. This should leverage their brand strengths and focus on pairing of meals with the iconic Tropika brand that is a household name across South Africa. Product pairing need not be limited to food pairing. The noted increase in demand for prepaid airtime can form either part of a loyalty programme of instant redemption depending on the purchase amount. This pairing affords the consumer to address two needs as helps influence the purchasing decision. Again, product pairing strategies are examples of diversifying product offering to emerging markets where needs are more unique.

15.3 Consumer loyalty program

Consumeristic offerings such as loyalty points and discount offerings are still sought after by consumers and lead to trust and satisfaction from the customer. Both of these are desired business outcomes (Corbishley, 2017). Whilst consumeristic benefits do not necessarily lead to immediate loyalty, they are still attractive to customers. Corbishley (2017) further emphasises that if consumeristic benefits are easy to use, immediate and tangible, satisfaction and trust will improve resulting in commitment and loyalty. The implementation of a guaranteed rewards program will drive repeat purchases and offers consumers instant gratification is recommended. These campaigns must be used selectively and on a short-term basis to drive the initial appetite for the products in an already brand conscious environment. Investment costs are perceived to be low given that this can be implemented using the current Clover IT infrastructure. A case study of such an implementation was demonstrated by Unilever with their “OMO hand wash campaign” (Brandtne, 2014). Unilever South Africa successfully increased sales by 18 % during the campaign period.

Members of FNB’s (First National Bank) loyalty programme, E-Bucks Rewards, have given away to consumers R202 million on fuel since implementation in 2010 (Kruger, 2014). Even relatively inactive E-Bucks members are afforded the opportunity to spend their e-bucks rewards at many other retail outlets both in-store as well as online. Another player in the beverage industry KAUAI who target a different LSM with vastly different selling points, have successfully used their loyalty programs to promote consumer purchasing to the extent that they have now migrated to a digital platform, where consumers can use their mobile smart phones devices to accumulated points and redeem their rewards.

15.4 New price pack innovation

A study by McGaffin & Gavera (2011) indicated that consumers from the townships had decreased their expenditure, favouring rather to spend more at their local shopping centres. In this way product offering and pricing must be more innovative and in line with such emerging markets. Providing consumers with a low entry point to Clover’s products will enhance brand loyalty from an early age and has the potential to build preference over extended periods of time. An entry level pack can help us build the relationship with younger consumers. It is acknowledged that Clover has a wide variety of

SKU's, but these are not evident in the local and traditional markets associated with the township economy. These should be considered recruitment packs as part of addressing the affordability concerns that were highlighted in the consumer feedback. At a later stage these can be expanded to selected big events, like soccer matches to improve the brand visibility of the Clover portfolio.

15.5 Branded tuk-tuk's for clover products and customers

Tuk-tuk's provides a flexible alternative to the traditional outlet and has the ability to take cold Clover soft drinks directly to the consumers during key consumption times, thereby increasing availability. In addition, the Tuk-tuk acts as a moving billboard and this high impact brand visual have the potential to stimulate consumer demand. A similar campaign was carried out in Cambodia (Fernquest, 2014). Coca Cola used the Tuk-tuk initiative to promote their new Samurai drinks by travelling through the city and distributing samples using these solar powered Tuk-tuks. Due to the infrastructure disparity in the South African economy, several consumers still commute long distances to the affluent areas to be able to access more attractive deals from the national stores, like Massmart and Supermarkets. These areas are not easily accessible through public transport and in some cases the distance between the shops and the commuting areas like taxi ranks limit the basket size of consumers. A fleet of Tuk-tuks is suggested that ease the distance consumers must travel between the taxi ranks and the major retail centres. This can change the shopping experience for the consumer who feels like they are walking directly to a car park straight from the retailers. The only entry permit required to get into the "shuttle" Clover Tuk-tuk is a predetermined Clover bundle.

15.6 Two pack-easy pick

Most consumers in the local and traditional market that is associated with the township economy use public transport or walk to reach their destinations. Glass is heavy and difficult to transport compared to PET packaging. An innovative handle allows for implementing an "easy pick 2 pack". This allows a consumer to carry two 2 litre containers with one hand and will encourage consumers to increase their basket size. This supports the need for convenience that the profiled consumer is looking for making the carrying of two 2 litre soft drinks a one-handed task.

15.7 Smart packaging

Developments internationally have shown innovative approaches to smart packaging. The traditional approach of having shelf life of a product defined by an expiry date is being challenged. Smart packaging uses specific packaging technology to remove the guesswork when dealing with expired products (Smart Packaging, 2014). This type of technology, which has been used since 2007 by food chain giant McDonald's to monitor their salads, is especially useful to this LSM 1–6 markets. Access to fridges is not always possible and the possibility of not purchasing potentially expired products is especially attractive when dealing with these consumers. The consideration for Clover and related industries here would be the potential cost impact of implementing such packaging innovations.

15.8 Customer loyalty program

These programs take time to implement and require funds to be invested at the preliminary stages. SME interviews have revealed that this process has begun with branded fridges being offered both to local and foreign owned Spaza stores. The long-term benefits can be significant not just in terms of loyalty but also in terms of information sharing and creating the front of mind brand awareness that Clover requires. Such initiatives are particularly effective in environments where the brand does not own the outlet and need to rely on independent sales people to promote the products over strong, established competitor brands.

15.9 New markets

ABI which now fall under the Coca Cola Beverages Africa (CCBA) umbrella, have identified 32 priority townships in which the fastest growth is envisaged (Rajballi, 2014). A considerable 26 of those identified townships are in Gauteng. However according to Gauteng City-Region Observatory (GCRO) only 8 of those identified by ABI are currently in the list of the fastest growing or priority townships (GCRO, 2014). It is recommended that Clover develop their own list of priority townships and start aligning their promotional activities in favour of the new emerging data for both consumer and customer initiatives. The focus for these drives need not be only on the large established townships, rather on the fast growing and emerging areas.

15.10 Strategic wholesalers

Strategic wholesalers or distributors that are ideally located in the targeted townships allow Clover to increase their availability of products to all consumers as new outlets and selling opportunities emerge or are uncovered by the wholesaler. This is a relatively easy solution to implement and allows for the Clover portfolio to be present in this channel. This helps drive the front of mind awareness concept and ensures that competitor brands are challenged as this is their route to market and typical channel flow. Foreign traders who operate in these local and traditional markets tend to use these wholesalers for their bulk scale purchases, which are then in turn distributed among fellow foreign traders.

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